

Vodacom Group Limited
(Incorporated in the Republic of South Africa)
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ISIN: US92858D2009 ADR code: VDMCY
("Vodacom Group")

VODACOM GROUP'S PROPOSED NEW BROAD-BASED BLACK ECONOMIC EMPOWERMENT OWNERSHIP TRANSACTION

11 June 2018

Highlights

- Up to a R17.5 billion BEE transaction in Vodacom Group
- Largest BEE transaction in the ICT sector
- Unwind of the existing BEE transaction in Vodacom SA
- Consolidation of Vodacom SA BEE shareholders' interests into YeboYethu
- Exchange of YeboYethu's shareholding in Vodacom SA for ordinary shares in Vodacom Group, which provides exposure to Vodacom Group's South African and international operations
- Whilst retaining their shareholding, YeboYethu shareholders will receive a special dividend, representing c.2.7 times their original equity contribution
- Broaden ownership by the inclusion of qualifying Vodacom Group employees through a new Vodacom ESOP
- 10-year transaction term, with YeboYethu shareholders continuing to have the ability to trade their shares on the BEE Segment of the JSE
- Facilitation consistent with precedent BEE transactions
- Transaction leveraged through vendor and third-party preference share funding of YeboYethu
- Highly cost effective funding of YeboYethu with a blended funding rate of c.69% of prime
- Vodacom Group's effective BEE shareholding will increase to c.20%
- Following the implementation of the BEE transaction, Vodacom Group will own 100% of Vodacom SA

1. Introduction

During 2008, Vodacom Group facilitated a Broad-Based Black Economic Empowerment ("BEE") ownership transaction through the acquisition by Royal Bafokeng Holdings (Proprietary) Limited ("RBH") (which holds its shares in Vodacom (Proprietary) Limited ("Vodacom SA") through its subsidiary, Lisinfo 209 Investments (Proprietary) Limited), Thebe Investment Corporation (Proprietary) Limited ("Thebe") (which holds its shares in Vodacom SA through its subsidiary, Main Street 661 (Proprietary) Limited) and YeboYethu (RF) Limited ("YeboYethu") (collectively, the "Vodacom SA BEE shareholders"), in aggregate, of an effective 6.25% shareholding in the issued share capital of Vodacom SA (the "existing BEE transaction").

The existing BEE transaction is scheduled to unwind on 8 October 2018.

In demonstrating its ongoing and continued commitment to transformation and broad-based BEE ownership in South Africa, Vodacom Group, together with Vodacom SA and the Vodacom SA BEE shareholders ("parties"), have entered into a suite of agreements in terms of which the current shareholders of YeboYethu, together with the Vodacom SA BEE shareholders and a newly formed employee share ownership scheme in the form of an employee trust with the beneficiaries acquiring vested rights upfront (the "Vodacom ESOP") will, through YeboYethu, acquire between 5.80% and 6.25% of the issued shares in Vodacom Group (post issuance) in terms of a new BEE ownership transaction (the "proposed BEE transaction").

The parties have entered into inter alia a relationship agreement and an implementation agreement to regulate and implement the proposed BEE transaction, as more fully described in paragraph 3.

In terms of the implementation agreement, the parties have agreed the key pricing parameters of the proposed BEE transaction, barring the Vodacom SA / Vodacom Group share exchange, which has been delayed to minimise the time period between the pricing date (as defined below) and the date of conclusion of the proposed BEE transaction, to reduce market risk and pricing volatility. Accordingly, implementation of the proposed BEE transaction will be implemented based on the 60-day volume weighted average price ("VWAP") of a Vodacom Group share on the exchange operated by the JSE Limited ("JSE"), up to the last practicable date prior to formal JSE approval of the Vodacom Group and YeboYethu circulars ("pricing date"). The pricing date is currently anticipated to be Tuesday 3 July 2018.

The parties have agreed the following key proposed BEE transaction parameters, which will be determined on the pricing date:

60-day VWAP of a Vodacom Group share on pricing date	From R155 to R165	From R150 to (but less than) R155	From R147.50 to (but less than) R150	From R145 to (but less than) R147.50	From R140 to (but less than) R145
Transaction size	R17.5 billion	R17.2 billion to R17.5 billion	R16.9 billion to R17.2 billion	R16.6 billion to R16.9 billion	R16.0 billion to R16.6 billion
Equity swap ratio of Vodacom SA to Vodacom Group	69.5%	71.0%	71.0%	71.5%	73.0%
Subscription price discount from Vodacom Group	10% / R1.75 billion	R1.75 billion	R1.75 billion to R1.94 billion	R1.94 billion to R2.06 billion	R2.06 billion to R2.22 billion
Equity reinvested by the Vodacom SA BEE shareholders	R4.5 billion	R4.4 billion to R4.5 billion	R4.1 billion to R4.4 billion	R3.8 billion to R4.1 billion	R3.4 billion to R3.8 billion
Special dividend paid to YeboYethu shareholders	R3.0 billion to R3.7 billion	R3.0 billion	R3.0 billion to R3.1 billion	R3.1 billion to R3.2 billion	R3.2 billion to R3.4 billion
Vodacom ESOP subscription for new YeboYethu ordinary shares	R750 million	R750 million	R750 million	R750 million	R750 million

Gearing of YeboYethu (third party financing and vendor funding from Vodacom Group)

60%

60%

60%

60%

60%

Based on an illustrative price of R152.50 per Vodacom Group share, YeboYethu would acquire a 6.25% shareholding in Vodacom Group. This illustrative price will be updated to the 60-day VWAP on the last practicable date prior to finalising the circular. (The 60-day VWAP per Vodacom Group share on Thursday 7 June 2018, prior to finalisation of this announcement amounted to R152.17 per share.)

2. Rationale for and principles of the proposed BEE transaction

The existing BEE transaction is scheduled to unwind on 8 October 2018. Consistent with Vodacom Group's empowerment objectives to sustain and enhance its broad-based black ownership, the proposed BEE transaction has been designed to provide liquidity and the opportunity for Vodacom SA BEE shareholders and the Vodacom ESOP to participate in an attractive growth opportunity. In order to structure the proposed BEE transaction efficiently, Vodacom Group was guided by the following principles:

- to preserve Vodacom SA's BEE ownership level by ensuring that black ownership is not diluted through the unwind of the existing BEE structure and the implementation of the proposed BEE transaction;
- to provide significant liquidity and a return of capital to Vodacom SA BEE shareholders through the special dividend;
- to lower the cash cost of facilitating the proposed BEE transaction, through gearing the BEE net asset value;
- to bolster and grow YeboYethu, which consolidates Vodacom BEE shareholders in a listed and tradeable platform, and enable trading from day one by an increased shareholder base;
- to provide BEE shareholders exposure to Vodacom Group's South African and international operations, including Safaricom; and
- to broaden ownership by including qualifying employees of Vodacom Group and its South African subsidiaries ("employer companies"), through the Vodacom ESOP.

3. Salient details of the proposed BEE transaction

The proposed BEE transaction will be implemented through a series of inter-conditional steps as outlined below. The values reflected below are based on an illustrative price of R152.50 per Vodacom Group share.

3.1 Background

During 2008 Vodacom Group implemented the existing BEE transaction in terms of which the Vodacom SA BEE shareholders acquired a 6.25% interest in Vodacom SA through a subscription for:

- 282 million class "A" ordinary shares in the share capital of Vodacom SA ("Vodacom SA A shares"); and
- 18 million ordinary shares in the share capital of Vodacom SA ("Vodacom SA ordinary shares"), (collectively, the "Vodacom SA shares").

The issue of the Vodacom SA A shares was facilitated by Vodacom SA through a notional vendor finance ("NVF") structure. The Vodacom SA BEE shareholders were required to make an equity contribution of R900 million (R378 million from RBH, R162 million from Thebe, and R360 million from YeboYethu). In order to raise funds, YeboYethu offered 14.4 million ordinary shares in its share capital ("YeboYethu ordinary shares") for subscription by black individuals and black-owned companies. In addition, the YeboYethu Employee Participation Trust ("YeboYethu ESOP") subscribed for 12 million compulsorily convertible "N" shares ("YeboYethu N shares") at a nominal amount in terms of a separate NVF transaction.

Vodacom Group facilitated the establishment of the Innovator Trust (the "Innovator Trust"), an independent entity whose primary purpose is development and support of black owned Small Micro and Medium Enterprises ("SMME") in the information and communication technology sector, in 2014 with a loan facility of R750 million. The Innovator Trust uses the facility to purchase shares in YeboYethu, and uses the income from interest and dividends to develop black owned SMME's in the information and communication technology sector and advancement of black owned suppliers in Vodacom Group's supply chain.

In 2016, the YeboYethu ordinary shares were listed on the BEE Segment of the JSE.

Please refer to the announcement to be published in the press tomorrow (Tuesday 12 June 2018) for the diagram which illustrates the shareholding of the existing BEE transaction structure.

3.2 Proposed BEE transaction steps

3.2.1 Step 1: Unwind of the existing BEE transaction

Step 1A: Settlement of the NVF

Vodacom SA will repurchase 110 902 035 Vodacom SA A shares from the Vodacom SA BEE shareholders for a nominal consideration pursuant to the existing NVF transaction terms ("Vodacom SA repurchase"), upon which the remaining Vodacom SA A ordinary shares will rank pari passu with the Vodacom SA ordinary shares in all respects and will be unencumbered consistent with the terms of issue thereof. It is anticipated that post the Vodacom SA repurchase, the Vodacom SA BEE shareholders will collectively hold 189 097 965 Vodacom SA shares, or approximately 4.0% of Vodacom SA.

Step 1B: Conversion and partial repurchase of YeboYethu N shares

Following implementation of the Vodacom SA repurchase, the YeboYethu N shares will automatically convert according to their terms of issue and at the same time 3 154 468 of those shares shall be repurchased by YeboYethu for a nominal amount based on the existing YeboYethu NVF transaction terms. Of the 8 845 532 remaining YeboYethu ordinary shares held by the YeboYethu ESOP, a portion will, as set out in Step 4 (paragraph 3.2.4), be sold to the Vodacom ESOP, and the remainder of those shares will be transferred, together with the proceeds of those sales, to the existing vested beneficiaries of the YeboYethu ESOP, whereafter the YeboYethu ESOP will be wound-up.

3.2.2 Step 2: Consolidation of Vodacom SA BEE shareholders' interests in Vodacom SA in a single vehicle

Each of RBH and Thebe will exchange their Vodacom SA shares for new YeboYethu ordinary shares in terms of an asset-for-share transaction, thereby consolidating all of the Vodacom SA BEE shareholders' interests into a single vehicle, being YeboYethu.

RBH will sell its 56 191 660 Vodacom SA A shares and 7.56 million Vodacom SA ordinary shares to YeboYethu, and in return YeboYethu will issue 15 115 065 new YeboYethu ordinary shares to RBH in consideration.

Thebe will sell its 24 082 140 Vodacom SA A shares and 3.24 million Vodacom SA ordinary shares to YeboYethu, and in return YeboYethu will issue 6 477 885 new YeboYethu ordinary shares to Thebe in consideration.

The sales by each of RBH and Thebe, and the issue of new ordinary shares in YeboYethu, will be done simultaneously and at fair value.

3.2.3 Step 3: YeboYethu declares a special dividend (distribution)

YeboYethu will declare a special dividend of R3 016 419 627 or R67.28 per YeboYethu ordinary share. The special dividend represents a significant liquidity event and equates to 2.7 times the original equity contribution.

Despite declaration, the payment of the special dividend will only occur in (and be contingent upon) Step 6 (and each of the preceding Steps) being implemented (paragraph 3.2.6).

3.2.4 Step 4: Vodacom Group employer companies make a contribution to the Vodacom ESOP to enable it to acquire YeboYethu ordinary shares

Vodacom Group, on behalf of itself and the employer companies, will make a capital contribution of an aggregate amount of R1.05 billion to the Vodacom ESOP. The Vodacom ESOP will use the proceeds to purchase up to a maximum of 2 988 919 YeboYethu ordinary shares valued at R300 million from the YeboYethu ESOP (and the YeboYethu ESOP beneficiaries insofar as the rights therein have vested), and will use the balance of R750 million to subscribe for 7 472 297 new YeboYethu ordinary shares for the benefit of vested beneficiaries.

Should any balance of the contribution remain after the sale and subscription above, the Vodacom ESOP will use those funds to acquire YeboYethu ordinary shares in the market after the implementation of the proposed BEE transaction.

3.2.5 Step 5: YeboYethu exchanges Vodacom SA shares for new Vodacom Group shares

A new special purpose vehicle, YeboYethu Investment Company (RF) (Proprietary) Limited ("YeboYethu Investment"), will be created for the purpose of holding YeboYethu's Vodacom Group shares, and will be a wholly-owned subsidiary of YeboYethu.

After the implementation of the aforementioned steps and the consolidation of YeboYethu's shareholding in Vodacom SA, YeboYethu will on the next day exchange its Vodacom SA shares for ordinary shares in the share capital of YeboYethu Investment ("YeboYethu Investment shares"). YeboYethu will sell its 171 097 965 Vodacom SA A shares and 18 million Vodacom SA ordinary shares to YeboYethu Investment, and in return YeboYethu Investment will issue 7 516 420 new YeboYethu Investment ordinary shares to YeboYethu in consideration.

After implementation of the exchange of Vodacom SA shares for YeboYethu Investment shares, and on the subsequent day, YeboYethu Investment will exchange its Vodacom SA shares for new ordinary shares in the share capital of Vodacom Group ("Vodacom Group shares") on a fair value basis. YeboYethu Investment will sell its 171 097 965 Vodacom SA A shares and 18 million Vodacom SA ordinary shares to Vodacom Group and in return Vodacom Group will issue 49 287 998 new Vodacom Group shares in consideration.

3.2.6 Step 6: YeboYethu raises vendor funding and third party financing and subscribes for additional Vodacom Group shares

YeboYethu will issue class B preference shares in its share capital ("class B preference shares") to Vodacom Group and raise R4 732 666 667. The class B preference shares will be unsecured. YeboYethu will use the subscription proceeds received pursuant to (i) the subscription by Vodacom ESOP (as set out in step 4 at paragraph 3.2.4 above) and (ii) the issue of the class B preference shares, to (a) fund the payment of the special dividend (as set out in step 3 at paragraph 3.2.3 above) and transaction costs amounting to R66 million and (b) subscribe for 2 400 247 additional YeboYethu Investment shares.

YeboYethu Investment will use the subscription proceeds received from YeboYethu above to subscribe for 19 084 628 new Vodacom Group shares at a discount of R510 158 659.

In addition, YeboYethu will issue class A preference shares in its share capital ("class A share cover preference shares") to third party funders and raise R5 833 333 333. The class A share cover preference shares will be secured through YeboYethu Investment issuing a guarantee and a pledge of the Vodacom Group shares held by it to the third party funders. YeboYethu will use the entire subscription proceeds received pursuant to the issue of the class A share cover preference shares, to subscribe for 5 833 333 additional YeboYethu Investment shares.

YeboYethu Investment will use the entire subscription proceeds received from YeboYethu above to subscribe for 46 381 473 new Vodacom Group shares at a discount of R1 239 841 341.

3.3 Final structure

Please refer to the announcement to be published in the press tomorrow Tuesday 12 June 2018 for the diagram which illustrates the YeboYethu shareholding structure, following the implementation of the proposed BEE transaction.

4. Key terms of the YeboYethu structure

4.1 YeboYethu sources of funding

The table below sets out the sources of funding to discharge the payment obligations in terms of the proposed BEE transaction. The values reflected below are based on an illustrative Vodacom Group share price of R152.50. (the 60-day VWAP per Vodacom Group share on Thursday 7 June 2018, prior to finalisation of this announcement amounted to R152.17 per share)

Sources of funding	Rm	%
Economic value of Vodacom Group discount of subscription price	1 750	10.0
Equity contribution - Vodacom SA BEE shareholders (including YeboYethu shareholders)	4 500	25.6
Equity contribution by employer companies - Vodacom ESOP1	750	4.3

Class A share cover preference shares from third party funders	5 833	33.2
Class B preference shares from Vodacom Group	4 733	26.9
Total	17 566	100.0

Uses of funding	Rm	%
Transaction costs	66	0.4
Acquisition of Vodacom Group shares	17 500	99.6
Total	17 566	100.0

Note 1: Total ESOP contribution of R1 050 million, where up to a maximum of R300 million is utilised to acquire shares from the YeboYethu ESOP and up to a maximum of R750 million subscribe for new YeboYethu shares

4.2 Funding terms

The salient terms of the funding for YeboYethu are summarised as follows:

	Class A share cover preference shares	Class B preference shares
Facilities	Cumulative redeemable preference shares	
Issuer	YeboYethu	
Subscriber	Third party funders	Vodacom Group
Final redemption date	- 5 years commencing from subscription date - Intention to refinance for a further 5 years at the end of the initial subscription date	- 10 years commencing from subscription date
Service / redemption	Ongoing Vodacom Group dividends received by YeboYethu Investment will be applied in accordance with an agreed priority of payments which, among others, includes: - the payment of taxes and administration costs; - the service of a prescribed portion of the class A share cover preference shares on a semi-annual basis; - subject to the share cover ratio exceeding 2.4 times and the approval of the YeboYethu board of directors, a minimum annual trickle dividend in favour of YeboYethu shareholders, in an amount equal to the greater of (i) R76 million (increased at 5% per annum) or the balance of the available cash (whichever is less), and (ii) 20% of the available cash; and - subject to applicable restrictions in terms of the Income Tax Act, No 58 of 1962, the balance used to service the class B preference shares.	
Dividend calculation	Dividends on the class A share cover preference shares will accrue daily, be compounded monthly and settled semi-annually, subject to a permitted dividend roll up of 135%	Dividends on the class B preference shares will accrue daily, be compounded monthly and be serviced, subject to available cash (taking into account the class A share cover preference shares and provision for ordinary dividends), within a prescribed number of days of receipt by YeboYethu of distributions from YeboYethu Investment and/or cashflow receipts on account of the disposal of YeboYethu's shares in YeboYethu Investment
Dividend rate	68% of First National Bank's prime overdraft lending rate ("prime")	70% of prime
Security	- Cession and pledge of the YeboYethu proceeds account and redemption reserve account - Cession and pledge of YeboYethu's YeboYethu Investment shares - Guarantee by YeboYethu Investment - Cession and pledge of YeboYethu Investment's Vodacom Group shares	Unsecured
Covenants	- Entry cover ratio: cover of at least 3.0 times - Discussion trigger event: cover ratio less than or equal to 2.4 times - Trigger event: cover ratio less than or equal to 2.0 times - Net debt / EBITDA ratio to be less than or equal to 2.5 times measured semi-annually at the consolidated Vodacom Group level utilising the 12 months' EBITDA prior to the reporting period.	None

4.3 Listing and trading

Subject to the fulfilment or waiver of the suspensive conditions set out in paragraph 9 (some to be fulfilled prior to beginning to implement, and others during implementation), the proposed BEE transaction will be implemented over four successive business days, commencing on the first business day upon which, pursuant to any requirements of the JSE, the proposed BEE transaction may begin to be implemented, provided that such date shall not be earlier than the expiry of the period within which the shareholders of YeboYethu are, to the extent applicable, entitled to exercise their appraisal rights as a consequence of the passing of the resolutions to approve and implement the proposed BEE transaction ("Implementation Date"). YeboYethu will remain listed on the BEE Segment of the JSE after the Implementation Date. Registered holders of YeboYethu ordinary shares ("YeboYethu ordinary shareholders"), with the exception of the Vodacom ESOP, will therefore continue to have the ability to trade their YeboYethu ordinary shares on the JSE, before and after the implementation of the proposed BEE transaction.

4.4 ESOP

Qualifying Vodacom Group employees ("qualifying employees") will participate in ownership of Vodacom Group through the Vodacom ESOP that will acquire vested rights to the YeboYethu ordinary shares acquired by the Vodacom ESOP. Qualifying employees will be issued units in the Vodacom ESOP. The units, representing underlying YeboYethu ordinary shares, will have a service condition that will lift in three equal tranches at the end of years 3, 4 and 5 respectively, but will only become tradable on the BEE Segment in equal tranches over a three year period starting from the end of the fifth year of the scheme (i.e. years 6, 7 and 8).

4.5 Funding period

Subject to the funding agreements, YeboYethu (and YeboYethu Investment) will be prohibited from selling its effective shareholding in Vodacom Group for a period of ten years. After ten years and subject to the final settlement of the then outstanding funding, YeboYethu (and YeboYethu Investment) will have no restriction on the trading of its shareholding in Vodacom Group.

4.6 Dividends

YeboYethu Investment will receive dividends on its Vodacom Group shares. Dividends received from Vodacom Group will be used to pay taxes, administration costs and to service non-recourse funding. 20% of the remaining amount after servicing the Vodacom Group non-recourse preference shares will, at the election of YeboYethu be declared as a dividend to YeboYethu shareholders. The proposed BEE transaction has been structured such that YeboYethu will, subject to the share cover ratio exceeding 2.4 times and the approval of the YeboYethu board of directors, be able to pay a dividend to YeboYethu shareholders from the outset of the proposed BEE transaction, with a minimum annual trickle dividend in favour of YeboYethu shareholders being an amount equal to the greater of (i) R76 million (increased at 5% per annum) or the balance of the available cash (whichever is less), and (ii) 20% of the available cash.

5. Estimated facilitation cost

The economic cost of implementing the proposed BEE transaction for Vodacom Group and its shareholders is estimated to be approximately R4 245 million. This represents c.24.3% of the transaction value and c.1.7% of the market capitalisation of Vodacom Group as at the last practicable date. Further details of the facilitation cost will be provided in the circular to Vodacom Group shareholders.

6. Vodacom Group dividend policy

Vodacom Group intends to maintain its dividend policy of paying at least 90% of headline earnings, excluding the contribution of the attributable net profit or loss from Safaricom and any associated intangible amortisation. In addition, Vodacom Group intends to distribute any dividend it receives from Safaricom, up to a maximum amount of the dividend received, net of withholding tax.

Vodacom Group intends to add back the day one non-recurring share-based payment charge relating to YeboYethu shareholders, excluding the Vodacom ESOP, in relation to the proposed BEE transaction to headline earnings, for the purpose of dividend calculation, for the 2019 financial year.

7. Shareholder undertakings

Vodacom Group has secured irrevocable support from Vodafone Group Plc ("Vodafone") to vote in favour of all the relevant resolutions to effect the proposed BEE transaction.

Shareholder	Direct beneficial shareholding	Indirect beneficial shareholding	Total percentage of shares
Vodafone Investments SA	967 170 100	-	56.18
Vodafone International	143 459 781	-	8.33
Total	1 110 629 881	-	64.51

The Public Investment Corporation (SOC) Limited ("PIC") has provided Vodacom Group with a letter of support whereby the PIC (this includes the Government Employees Pension Fund) has confirmed its in-principle support of the proposed BEE transaction and, subject to their internal approval process, intends to vote in favour of all the requisite resolutions in respect of their shareholding in Vodacom Group.

Shareholder	Direct beneficial shareholding	Indirect beneficial shareholding	Total percentage of shares
PIC and GEPP	247 025 776	-	14.35

In addition, Vodacom SA has also secured irrevocable undertakings from RBH and Thebe in order to implement the unwind of the existing BEE transaction.

8. Pro forma financial effects of the unwind of the existing BEE transaction and the proposed BEE transaction (collectively the "proposed transactions")

The table below sets out the pro forma financial effects of the proposed transactions on, inter alia, Vodacom Group's net asset value per share, net tangible asset value per share, basic earnings per share, diluted basic earnings per share, headline earnings per share and diluted headline earnings per share based on the most recently published reviewed

preliminary condensed consolidated financial results of Vodacom Group for the year ended 31 March 2018.

The pro forma financial effects have been prepared using accounting policies that comply with IFRS and that are consistent with those applied in the published reviewed preliminary condensed consolidated financial results of Vodacom Group for the year ended 31 March 2018.

The pro forma financial effects are the responsibility of the directors of Vodacom Group and were prepared for illustrative purposes only and may not, because of its nature, fairly present Vodacom Group's financial position, changes in equity and results of its operations or cash flows nor the effect and impact of the proposed transactions going forward. It does not purport to be indicative of what the financial results would have been, had the proposed transactions been implemented on a different date.

Accounting treatment

Unwind of existing BEE transaction

The existing BEE transaction was predominantly accounted for as an equity-settled share based payment scheme, and YeboYethu and the special purpose vehicles created by RBH and Thebe to acquire the Vodacom SA shares were consolidated in terms of IFRS 10: Consolidated Financial Statements ("IFRS 10"). Consequently, the unwind of the existing BEE transaction will result in the special purpose vehicles created by RBH and Thebe being de-consolidated. The unwind will be accounted for within equity as it is a transaction with shareholders. Vodacom Group will continue to consolidate YeboYethu while YeboYethu ESOP will be wound up.

Proposed BEE transaction

The proposed BEE transaction will be implemented through a series of inter-conditional steps resulting in Vodacom Group issuing an assumed 114 754 098 new Vodacom Group shares to YeboYethu based on the 60-day VWAP per new Vodacom Group share on the pricing date.

The proposed BEE transaction meets the requirements of an IFRS 2: Share-based Payment ("IFRS 2") arrangement and will predominantly be accounted for as equity-settled, resulting and will result in a once off share-based payment charge, as well as a recurring share-based payment charge for Vodacom ESOP, which will be expensed over the vesting period. Vodacom Group currently has no intention to settle the proposed BEE transaction in cash. The Innovator Trust and a portion of the Vodacom ESOP will however be accounted for as cash-settled due to the accounting substance thereof, of which the charge relating to the Vodacom ESOP will be expensed over the vesting period. As this part of the share based payment is cash-settled, the share based payment liability will be re-measured at each reporting period.

Based on management's judgement and application of the control principles contained in IFRS 10, management concluded that Vodacom Group will consolidate YeboYethu, YeboYethu Investment and Vodacom ESOP. As a result, the assumed 114 754 098 new Vodacom Group shares held by YeboYethu Investment in Vodacom Group will be treated as treasury shares (i.e. it will be excluded from shares in issue and weighted average number of shares in issue for accounting purposes). When the control principles in IFRS 10 are no longer met, YeboYethu and YeboYethu Investment will be de-consolidated and the new Vodacom Group shares held by YeboYethu Investment will no longer be classified as treasury shares.

	Before the proposed transactions(1) (cents) (A)	Pro forma after the proposed transactions, excluding non-recurring share-based payment charge(2) (cents) (B)	Pro forma after the proposed transactions(3) (cents) (C)	Percentage change (%) (B/A)	Percentage change (%) (C/A)
Based on 31 March 2018					
Basic earnings per share	947	904	734	(4.5)	(22.5)
Diluted basic earnings per share	919	881	716	(4.1)	(22.1)
Headline earnings per share	923	879	710	(4.8)	(23.1)
Diluted headline earnings per share	895	857	692	(4.2)	(22.7)
Net asset value per share	3 792	3 637	3 620	(4.1)	(4.5)
Net tangible asset value per share #	3 255	3 101	3 084	(4.7)	(5.3)
Weighted average number of Vodacom Group shares in issue (millions)	1 620	1 620	1 620		
Weighted average diluted number of Vodacom Group shares in issue (millions)	1 622	1 663	1 663		
Number of Vodacom Group shares in issue (millions)	1 700	1 700	1 700		
- Total number of Vodacom Group shares in issue (millions)	1 721	1 836	1 836		
- Treasury shares (millions)	(21)	(136)	(136)		

Net tangible asset value is calculated as net asset value attributable to the owners of the parent, less the value of goodwill, other intangible assets and deferred tax assets attributable to the owner of the parent.

Notes and assumptions

The pro forma financial effects presented assumes a Vodacom Group share price of R152.50 for illustrative purposes, and will be updated on the last practicable date prior to finalising the Circular (the 60-day VWAP per Vodacom Group share on Thursday 7 June 2018, prior to finalisation of this announcement amounted to R152.17 per share).

1. The Vodacom Group information reflected in the "Before the proposed transactions" column has been extracted from the published reviewed preliminary condensed consolidated financial statements of Vodacom Group for the year ended 31 March 2018.

2. The Vodacom Group information reflected in the "Pro forma after the proposed transactions, excluding non-recurring share-based payment charge" column has been calculated on the basis that all of the steps to unwind the existing BEE transaction and all of the steps to implement the proposed BEE transaction have been completed and is stated before

the non-recurring share-based payment charge arising as a result of the proposed BEE transaction.

3. The Vodacom Group information reflected in the "Pro forma after the proposed transactions" has been calculated on the basis that all of the steps to unwind the existing BEE Transaction and all of the steps to implement the proposed BEE transaction have been completed and is stated after the non-recurring share-based payment charge arising as a result of the proposed BEE transaction.

4. The effects on basic earnings, diluted basic earnings, headline earnings, and diluted headline earnings per share are calculated on the basis that the proposed transactions were effective on 1 April 2017, while the effects on net asset value and net tangible asset value per share are calculated on the basis that the proposed transactions were effective on 31 March 2018 for purposes of presenting the pro forma financial effects thereof on Vodacom Group.

The pro forma adjustments are based on the following principal assumptions:

- Step 1: The unwind of the existing BEE Transaction

It has been assumed that the unwind of the existing BEE transaction and the settlement of the outstanding notional vendor finance will take place in accordance with the Memorandum of Incorporation of Vodacom SA, resulting in Vodacom SA BEE shareholders collectively owning a shareholding of 4.0% in Vodacom SA.

Step 1 results in the de-consolidation of the special purpose vehicles through which RBH and Thebe owns its Vodacom SA shares as well as the reversal of the non-controlling interest and the YeboYethu ESOP IFRS 2 liability which arose upon the offer to employees to take up interest-free loans with the underlying YeboYethu shares as security, and which will be extinguished upon unwinding the existing BEE transaction. Vodacom Group will continue to consolidate YeboYethu.

- Step 2: Consolidation of Vodacom SA BEE Shareholders' interests in Vodacom SA in a single vehicle

This step does not give rise to any pro forma financial effects for Vodacom Group.

- Step 3: YeboYethu declares a special dividend

Other reserves are reduced for the impact of the declaration of the special dividend. The pro forma financial effects arising as a result of the settlement of the special dividend are described below.

- Step 4: Vodacom Group employer companies make a contribution to the Vodacom ESOP to enable it to acquire YeboYethu ordinary shares

Other reserves and cash are reduced for the impact of the R300 million acquisition of YeboYethu shares by Vodacom ESOP from YeboYethu ESOP, while there is no impact for the R750 million subscription for YeboYethu shares by Vodacom ESOP as it eliminates on consolidation.

- Step 5: YeboYethu exchanges Vodacom SA shares for new Vodacom Group shares

The assumed 49 287 998 new Vodacom Group shares issued in exchange for the 4.0% shareholding that YeboYethu holds in Vodacom SA are treated as treasury shares on a consolidated level. This step results in an assumed IFRS 2 charge as described below and an increase in the total number of Vodacom Group shares in issue used for calculating dividend per share.

- Step 6: YeboYethu raises vendor funding and third party financing and subscribes for additional Vodacom Group shares

YeboYethu class A preference shares

Borrowings are increased for YeboYethu's issue of class A preference shares to third party financiers at the assumed value of R5 833 million. YeboYethu will use the entire subscription proceeds received to subscribe for 46 381 473 new Vodacom Group shares through its wholly owned subsidiary YeboYethu Investment at a discount of R1 240 million, assuming a Vodacom Group share price of R152.50.

These shares are treated as treasury shares on a consolidated level. In addition, this step results in an IFRS 2 charge as described below and an increase in the total number of Vodacom Group shares in issue used for calculating dividend per share.

Finance cost at a rate of 68% of prime overdraft lending rate (non tax deductible) on the outstanding balance of the A preference shares has been assumed.
YeboYethu class B preference shares

The issue of class B preference shares by YeboYethu to Vodacom Group at the assumed value of R 4 733 million does not give rise to any pro forma financial effects as it eliminates on consolidation. YeboYethu will use the subscription proceeds as well as the subscription proceeds received from Vodacom ESOP through the subscription of YeboYethu shares to the value of R750 million to:

- Fund the payment of the special dividend of R3 016 million to YeboYethu shareholders (detailed in Step 3);
- Settle assumed transaction costs of R66 million; and
- Subscribe for 19 084 628 new Vodacom Group shares through its wholly owned subsidiary YeboYethu Investment at a discount of R510 million assuming a Vodacom Group share price of R152.50.

These shares are treated as treasury shares on a consolidated level. In addition, this step results in an IFRS 2 charge as described below and an increase in the total number of Vodacom Group shares in issue used for calculating dividend per share.

4.1 The proposed BEE transaction gives rise to the following assumed IFRS 2 charges:

- A non-recurring share-based payment charge of R2 743 million, relating to YeboYethu shareholders, excluding the Vodacom ESOP; and
- A total recurring share-based payment charge of R1 502 million, relating to Vodacom ESOP, which will be recognised in tranches over the vesting period of five years.

Accordingly, the pro forma financial effects assumes a charge of R3 059 million, consisting of the non-recurring charge, and one year's vesting charge net of tax of R77 million, in relation to the Vodacom ESOP component.

Of the total IFRS 2 charge of R4 245 million, R885 million relates to a cash-settled share-based payment arrangement. On initial recognition, the liability relating to the Vodacom ESOP and the Innovator Trust will be measured at fair value using the Monte Carlo Simulation based option pricing model. The value of the liability will be re-measured at each reporting period based on changes to the various valuation inputs.

The abovementioned share-based payment charges have been calculated using a Monte Carlo Simulation based option pricing model. The economic substance of the proposed BEE transaction mimics that of a call option, with the value of the outstanding debt at the maturity date of the transaction as the strike price of the option. A total IFRS 2 charge of R4 245 million has been determined for this transaction at inception. The assumptions used in this model for purposes of the pro forma financial effects include:

- Vodacom SA fair value;
- 114 754 098 new Vodacom Group shares;
- Vodacom Group assumed share price of R152.50;
- Volatility of 22.17%, calculated using historical share price information;
- Expected costs to escalate by 6% per annum;
- Expected dividend yields of between 5% and 6%; and
- A risk free rate of a zero-coupon South African Rand interest rate swap curve as at the valuation date using a raw interpolation bootstrapping algorithm and the South African money-market rates and swap rates as input.

4.2 The calculation of diluted earnings and diluted headline earnings per share is based on the weighted average number of shares in issue, increased by the number of shares to be issued for no consideration under the proposed BEE transaction. The assumed number of dilutive shares of 40 849 281 is based on an assumed issue of 114 754 098 Vodacom Group shares, assumed proceeds based on the outstanding preference share funding and the value of services to be provided by employees in the future and an average market price of the Vodacom Group share over the reporting period of R159.03.

4.3 The net assumed cash proceeds of R2 434 million is assumed to earn interest at an average rate of 6.44% percent, before taxation, which interest saving thereon is of a continuing nature.

4.4 Once-off transaction costs of R157 million including VAT (non tax deductible) (inclusive of the transaction costs in Step 6) are assumed to be settled in cash and have been expensed in profit or loss.

The pro forma financial effects based on the final pricing information will be included in the circular to be posted to Vodacom Group shareholders.

9. Suspensive conditions

The implementation of the proposed BEE transaction is subject to the fulfilment or (where applicable) waiver of the following suspensive conditions on or before the day before the end of the current "lock-in period" in the YeboYethu memorandum of incorporation, currently being 7 October 2018, or such later date as may be agreed between Vodacom Group and YeboYethu (the "long stop date"):

- that on the pricing date the 60-day VWAP of a Vodacom Group share is equal to or greater than R140 and less than or equal to R165. If this is not the case, the parties may request for the pricing date to be delayed to consult as to whether the terms of the proposed BEE transaction can be amended such that the parties will proceed nonetheless. If agreement cannot be reached within 15 business days from the pricing date, and following such consultation (i) the price is still not within such range; and (ii) one of the parties does not want to proceed, this suspensive condition will fail;
- the requisite majority of Vodacom Group shareholders approving all the resolutions required to effect the proposed BEE transaction;
- the requisite majority of YeboYethu shareholders approving all the resolutions required to effect the proposed BEE transaction;
- filing of an amendment to, and/or replacement of, Vodacom SA's memorandum of incorporation, in a form acceptable to YeboYethu and Vodacom Group, which includes those amendments required to give effect to the proposed BEE transaction;
- filing of an amendment to, and/or replacement of, YeboYethu's memorandum of incorporation, in a form acceptable to Vodacom SA, YeboYethu and Vodacom Group, which includes those amendments required to give effect to the proposed BEE transaction;
- filing of an amendment to, and/or replacement of, the YeboYethu ESOP's trust deed and scheme rules, in a form acceptable to YeboYethu, Vodacom Group and the YeboYethu ESOP, which includes those amendments required to give effect to the proposed BEE transaction;
- the proposed BEE transaction agreements being concluded and becoming unconditional in accordance with their terms;
- the funding agreements being concluded and becoming unconditional in accordance with their terms; and
- all regulatory consents being received on an unconditional basis or, to the extent that any such regulatory consents are subject to any condition or qualification, the party or parties adversely affected by the condition or qualification confirming in writing to the other/s that the condition or qualification is acceptable to it or them, which confirmation shall not be unreasonably withheld or delayed.

Apart from these suspensive conditions, each specific agreement contemplated in the steps outlined above contains its own suspensive conditions that must be fulfilled prior to it becoming enforceable, which specific transaction conditions must be fulfilled on or before 15 October 2018, or such later date as may be agreed between Vodacom Group and YeboYethu (the "specific conditions date"). The specific transaction conditions include the fact that all prior steps should have become unconditional and have been implemented and that Vodacom Group in certain circumstances has given written notice confirming that all of the suspensive conditions and steps prior to the relevant agreement have been fulfilled and/or implemented in accordance with the implementation agreement. Vodacom Group and YeboYethu, may by way of written agreement, and provided that non-compliance therewith would not constitute a breach of law by any of the parties, waive any of the above general suspensive conditions. Any waiver of the general proposed BEE transaction conditions must occur on or before the long stop date, and any waiver of the specific transaction conditions must occur before the date upon which the last of the general transaction conditions are fulfilled or waived.

10. Further documentation

Further details will be provided post the pricing date including a detailed transaction timetable.

A circular containing details of the proposed BEE transaction and a notice of general meeting will be posted to Vodacom Group shareholders, the date of which posting is anticipated to be during July 2018.

11. Investor call

A dial-in teleconference call on the details of this announcement will be held on 11 June 2018 at 16h00 South African time. Request dial-in details by emailing VodacomIR@vodacom.co.za

Midrand

11 June 2018

Financial adviser to Vodacom, debt arranger and co-funder to YeboYethu and transaction sponsor to Vodacom Group
Rand Merchant Bank (a division of FirstRand Bank Limited)

Financial adviser, co-funder and transaction sponsor to YeboYethu
Absa Corporate and Investment Bank, a division of Absa Bank Limited

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